About the Great Depression

The Great Depression was an economic slump in North America, Europe, and other industrialized areas of the world that began in 1929 and lasted until about 1939. It was the longest and most severe depression ever experienced by the industrialized Western world.

Though the U.S. economy had gone into depression six months earlier, the Great Depression may be said to have begun with a catastrophic collapse of stock-market prices on the New York Stock Exchange in October 1929. During the next three years stock prices in the United States continued to fall, until by late 1932 they had dropped to only about 20 percent of their value in 1929. Besides ruining many thousands of individual investors, this precipitous decline in the value of assets greatly strained banks and other financial institutions, particularly those holding stocks in their portfolios. Many banks were consequently forced into insolvency; by 1933, 11,000 of the United States' 25,000 banks had failed. The failure of so many banks, combined with a general and nationwide loss of confidence in the economy, led to much-reduced levels of spending and demand and hence of production, thus aggravating the downward spiral. The result was drastically falling output and drastically rising unemployment; by 1932, U.S. manufacturing output had fallen to 54 percent of its 1929 level, and unemployment had risen to between 12 and 15 million workers, or 25-30 percent of the work force.

The Great Depression began in the United States but quickly turned into a worldwide economic slump owing to the special and intimate relationships that had been forged between the United States and European economies after World War I. The United States had emerged from the war as the major creditor and financier of postwar Europe, whose national economies had been greatly weakened by the war itself, by war debts, and, in the case of Germany and other defeated nations, by the need to pay war reparations. So once the American economy slumped and the flow of American investment credits to Europe dried up, prosperity tended to collapse there as well. The Depression hit hardest those nations that were most deeply indebted to the United States, i.e., Germany and Great Britain. In Germany, unemployment rose sharply beginning in late 1929, and by early 1932 it had reached 6 million workers, or 25 percent of the work force. Britain was less severely affected, but its industrial and export sectors remained seriously depressed until World War II. Many other countries had been affected by the slump by 1931.

Almost all nations sought to protect their domestic production by imposing tariffs, raising existing ones, and setting quotas on foreign imports. The effect of these restrictive measures was to greatly reduce the volume of international trade: by 1932 the total value of world trade had fallen by more than half as country after country took measures against the importation of foreign goods.

The Great Depression had important consequences in the political sphere. In the United States, economic distress led to the election of the Democrat Franklin D. Roosevelt to the presidency in late 1932. Roosevelt introduced a number of major changes in the structure of the American economy, using increased government regulation and massive public-works projects to promote a recovery. But despite this active intervention, mass unemployment and economic stagnation continued, though on a somewhat reduced scale, with about 15 percent of the work force still unemployed in 1939 at the outbreak of World War II. After that, unemployment dropped rapidly as American factories were flooded with orders from overseas for armaments and munitions. The depression ended completely soon after the United States' entry into World War II in 1941. In Europe, the Great Depression strengthened extremist forces and lowered the prestige of liberal democracy. In Germany, economic distress directly contributed to Adolf Hitler's rise to power in 1933. The Nazis' public-works projects and their rapid expansion of munitions production ended the Depression there by 1936.

At least in part, the Great Depression was caused by underlying weaknesses and imbalances within the U.S. economy that had been obscured by the boom psychology and speculative euphoria of the 1920s. The Depression exposed those weaknesses, as it did the inability of the nation's political and financial institutions to cope with the vicious downward economic cycle that had set in by 1930. Prior to the Great Depression, governments traditionally took little or no action in times of business downturn, relying instead on impersonal market forces to achieve the necessary economic correction. But market forces alone proved unable to achieve the desired recovery in the early years of the Great Depression, and this painful discovery eventually inspired some fundamental changes in the United States' economic structure. After the Great Depression, government action, whether in the form of taxation, industrial regulation, public works, social insurance, social-welfare services, or deficit spending, came to assume a principal role in ensuring economic stability in most industrial nations with market economies.

References

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